

Daniel J.B. Mitchell



California

The Golden State



Albumen

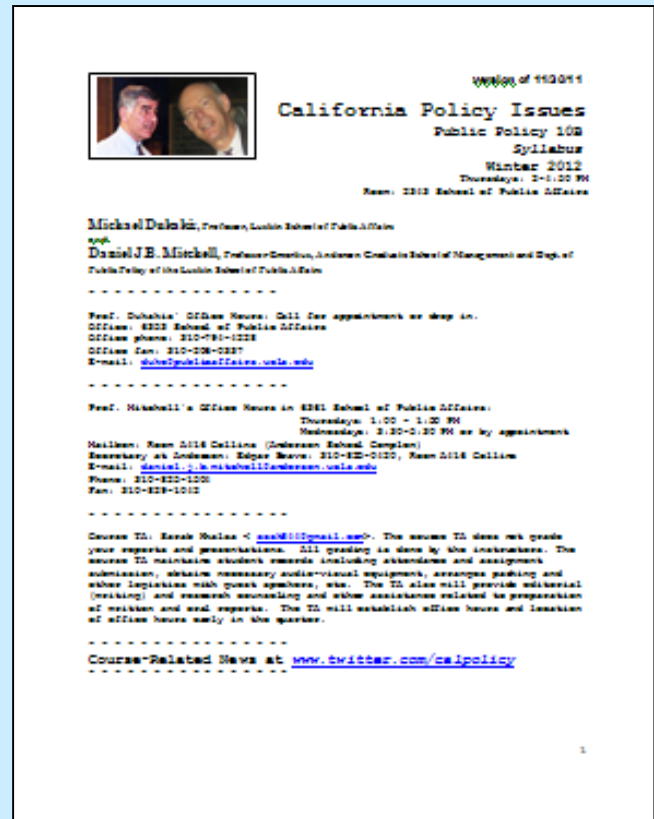
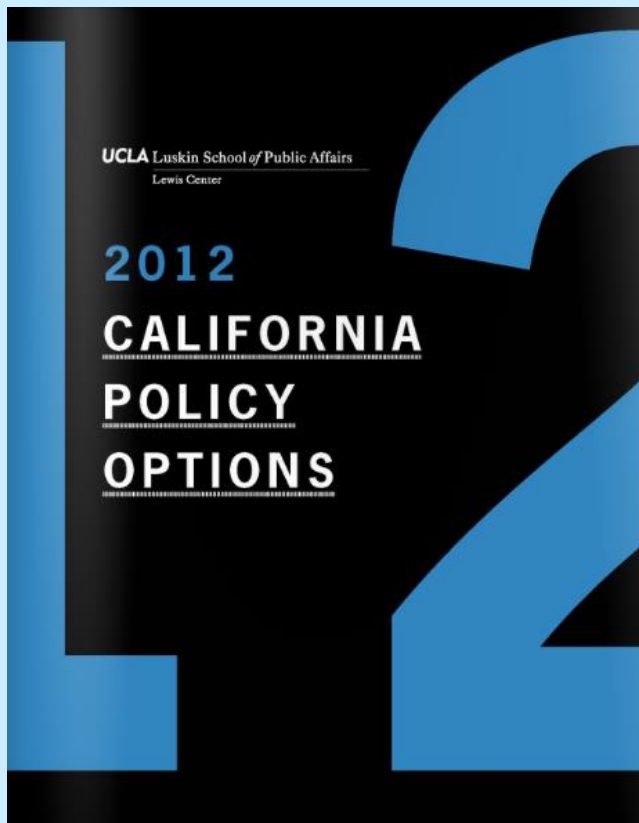


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California's political economy
California's demographic diversity
California's economic diversity
California's current macro problem
California's current fiscal problem
California's infrastructure & environment
What can we do?



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The Golden State



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The Unlikely State?



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The Unlikely State?



**Contest:
Who was California's
first movie star
governor?**



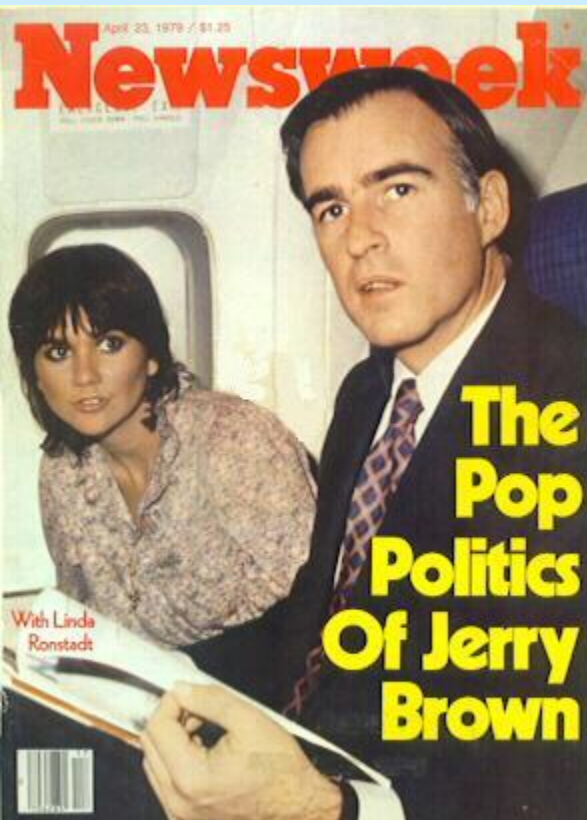
Unlikely State?



**Contest:
Who was California's
first movie star
governor?**



The Unlikely State?



“Brother Brown is in conference...
can I help you?”



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The Unlikely State?



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The Fiscally Dysfunctional State?



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Fiscally Dysfunctional Localities?



“Only when the tide goes out do you discover who's been swimming naked.”
Warren Buffett



Vallejo (pop 116,000)

Stockton (300,000)

Mammoth Lakes (7,400)

San Bernardino (210,000)

==

Compton next? (96,000)



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The Politically Dysfunctional State?



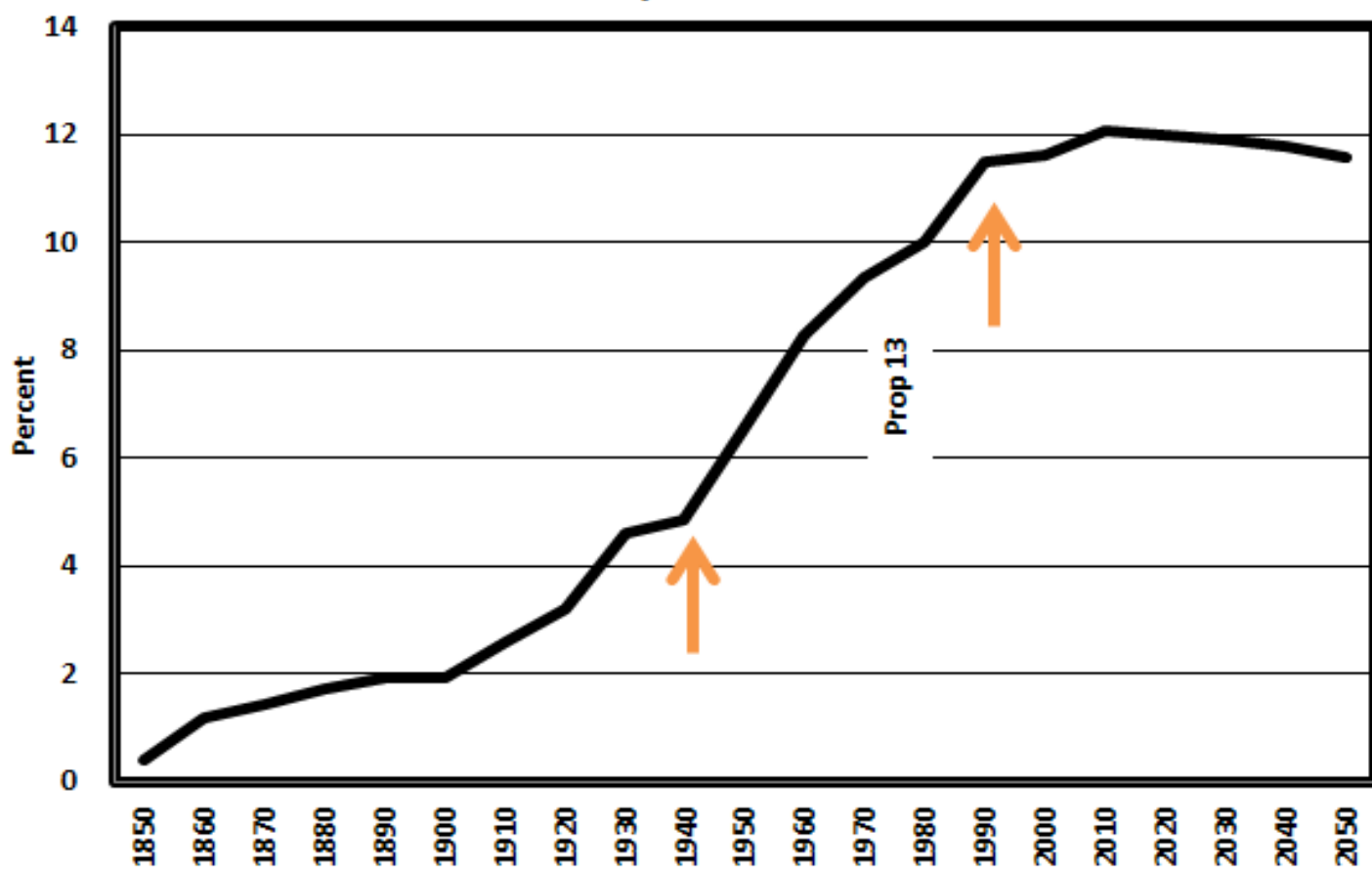
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The Politically Dysfunctional State?

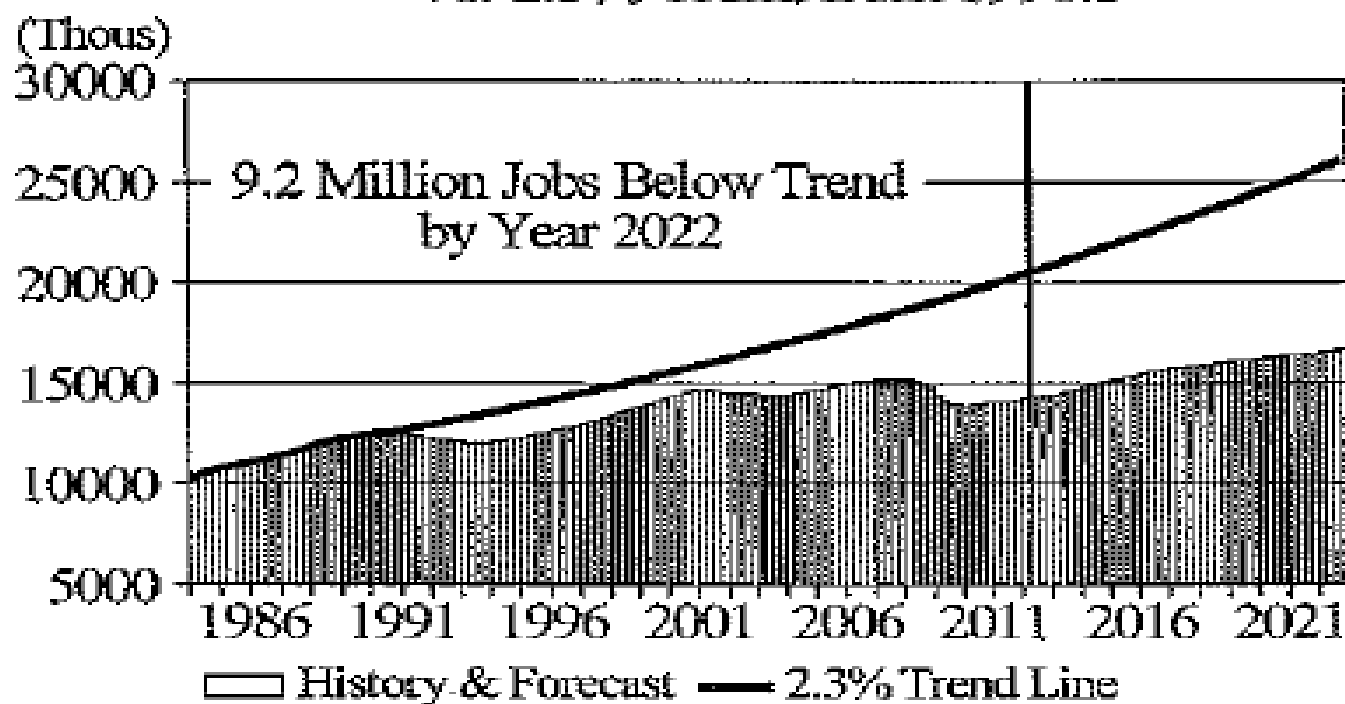


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California Population Relative to US

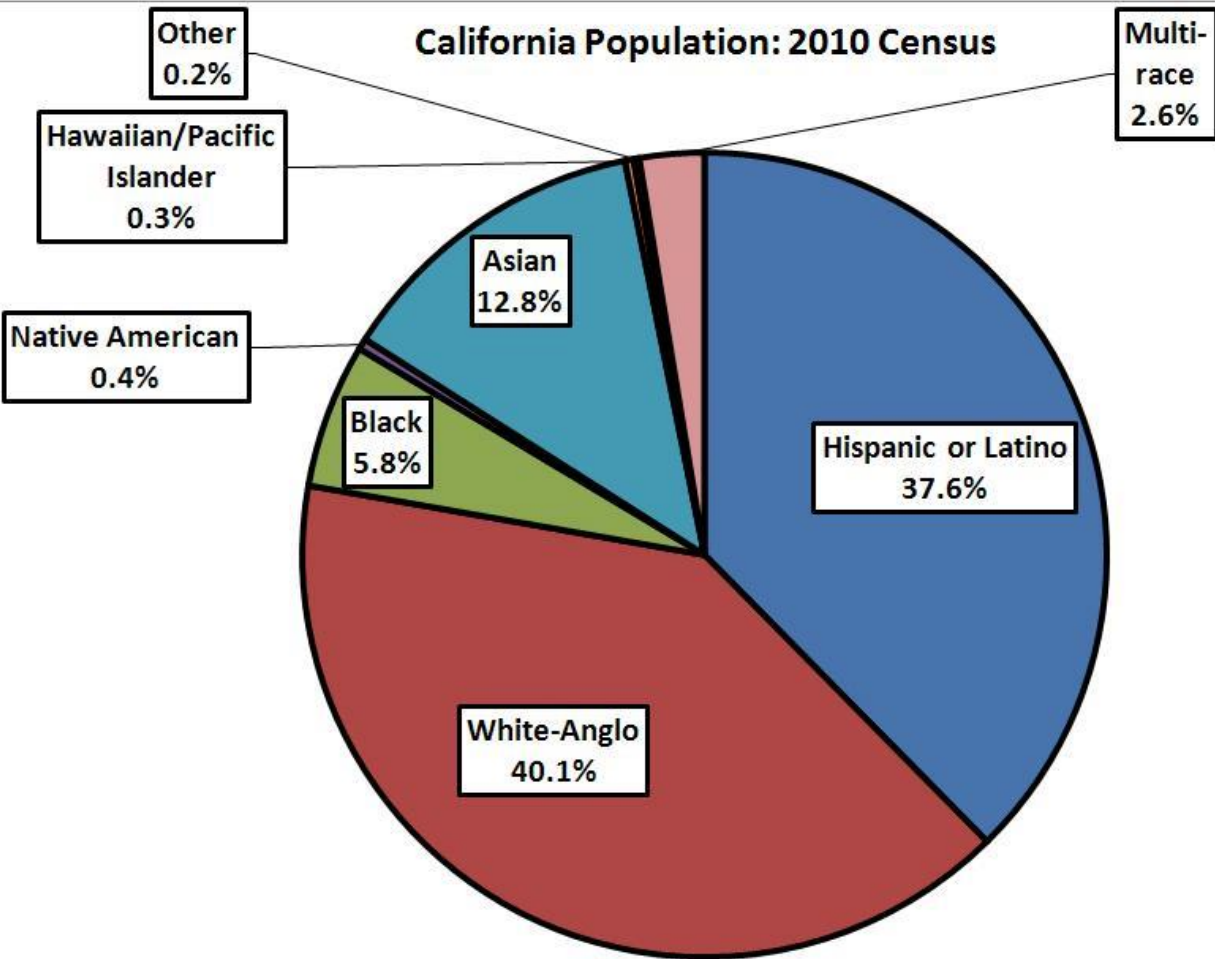


California Nonfarm Employment History & Forecast Vs. 2.3% Trend from 1990:3



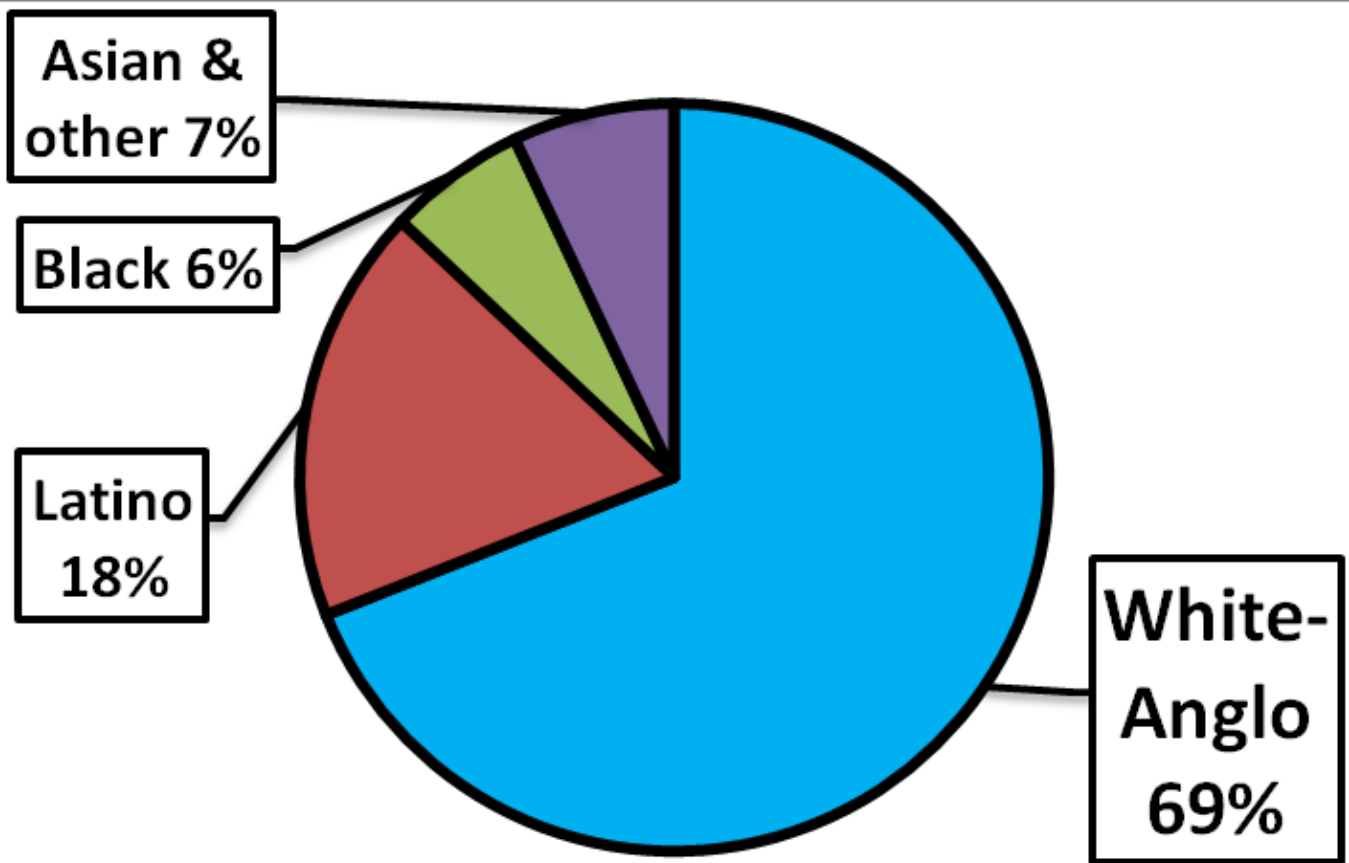


Diverse



Challenges:
Schools, Immigration

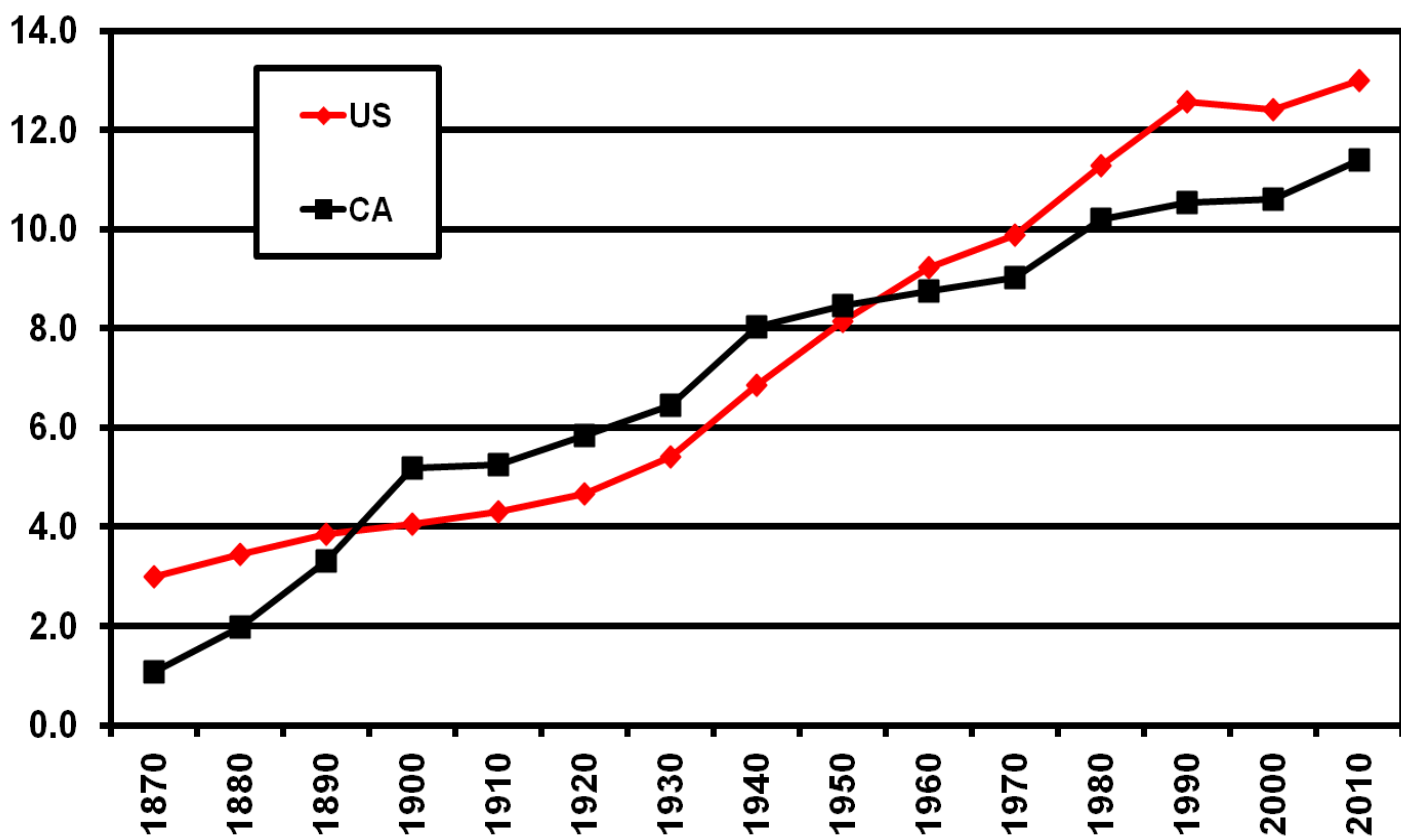
Likely Voters Less Diverse Than Population



Field Poll: July 2010

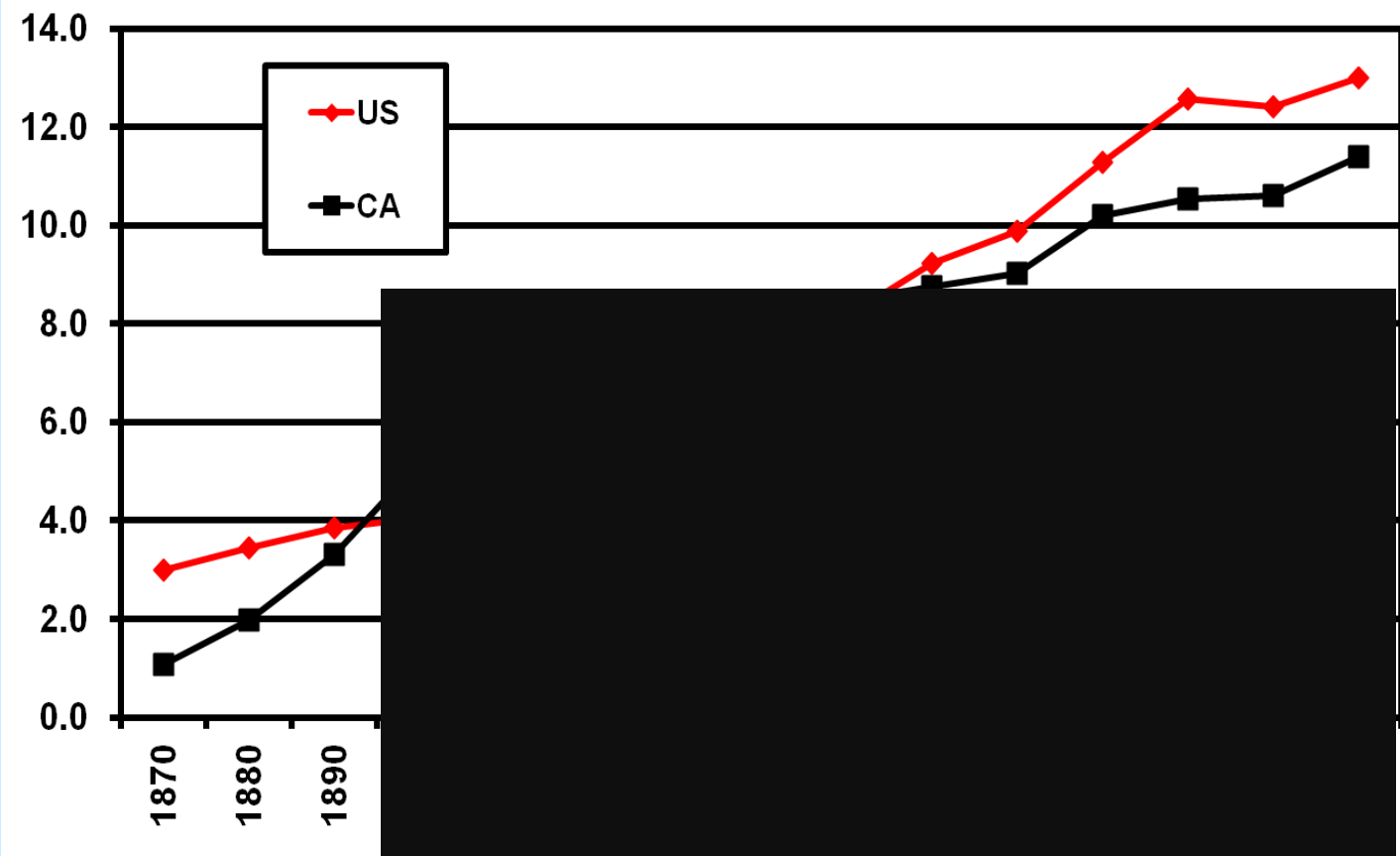
Population relatively young compared with US but aging

Population 65 & Over as % of Total:
US vs. California



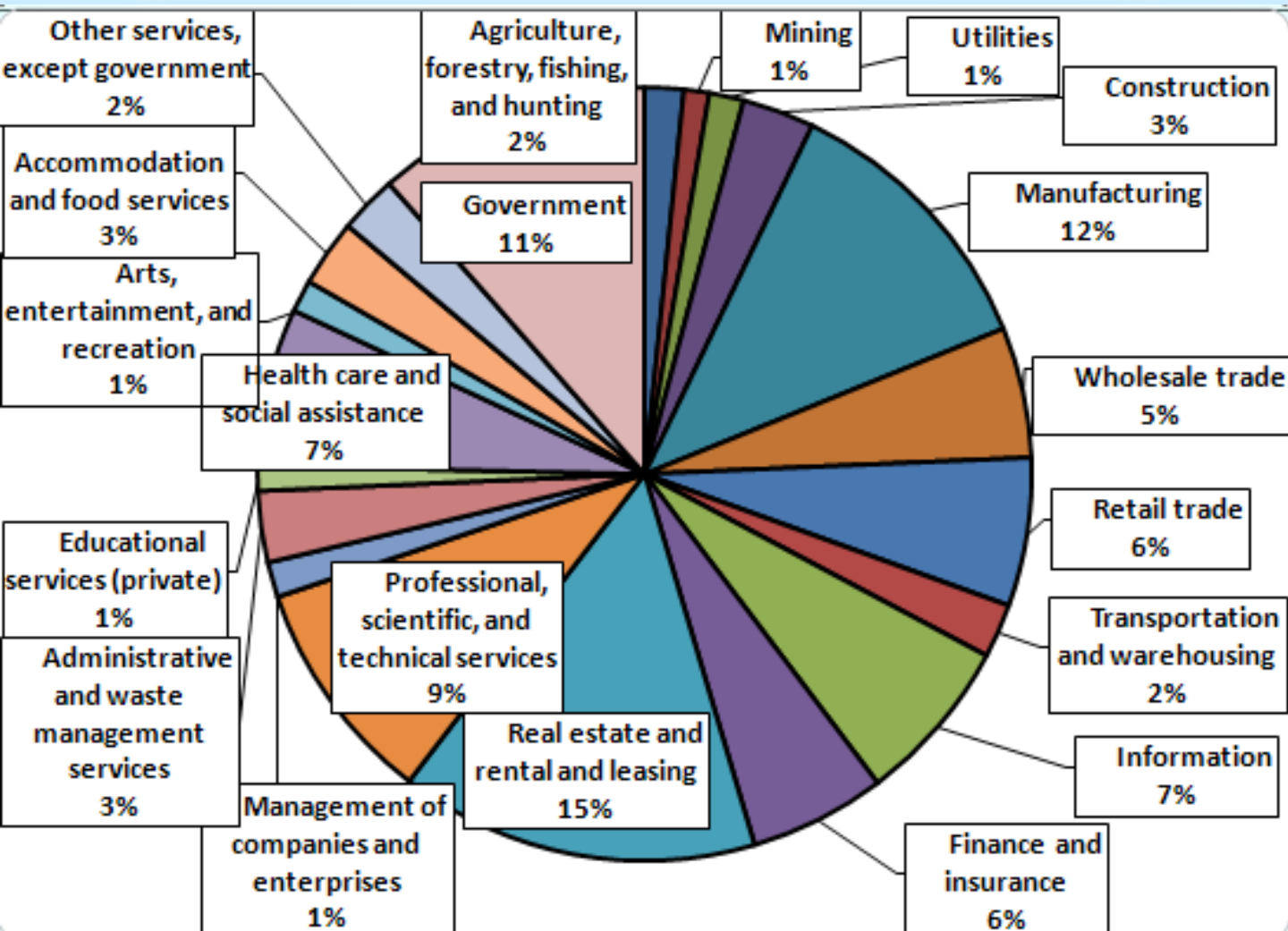
Aging issues are already coming to California

Population 65 & Over as % of Total:
US vs. California



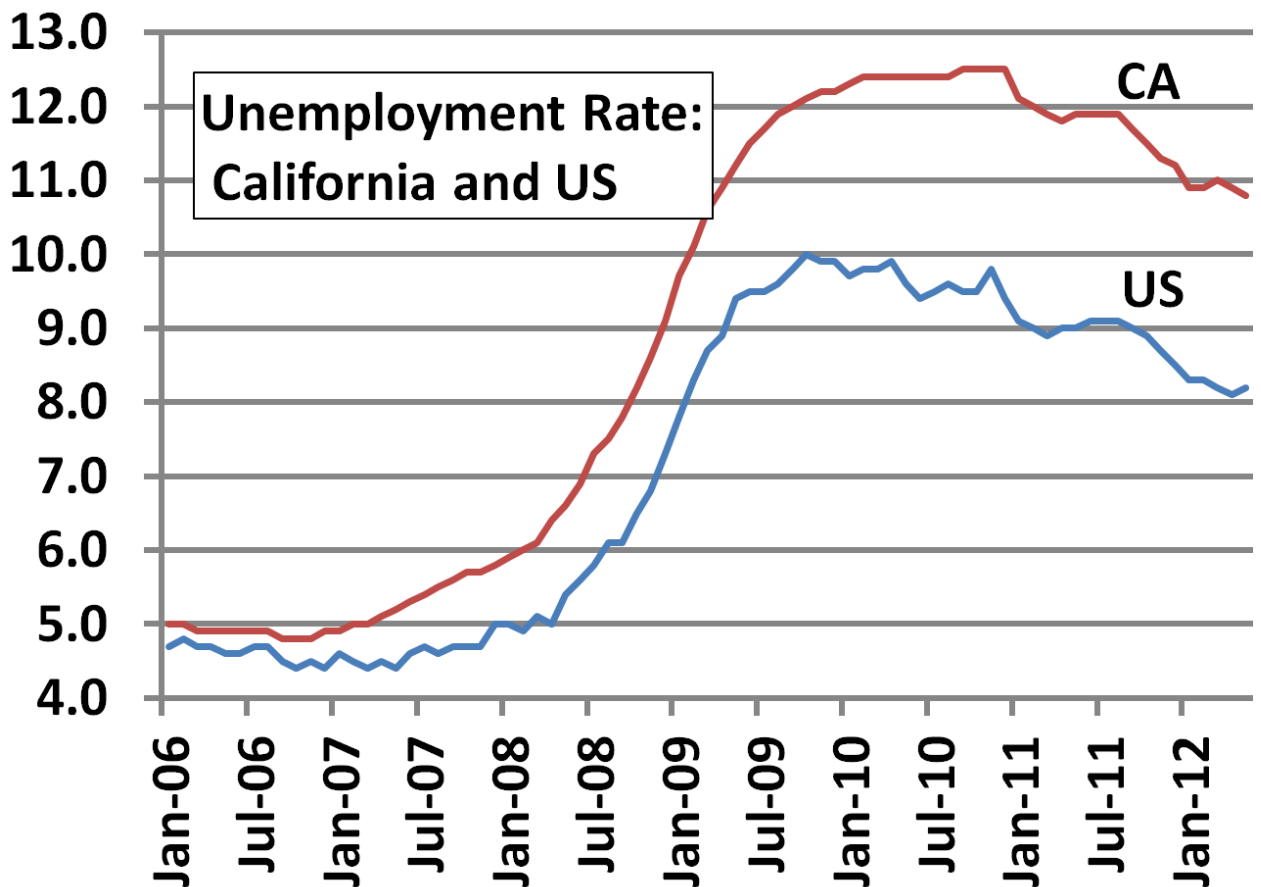
TV ad

California's Economy



Composition of California Gross State Product: 2011 (\$2 Trillion)

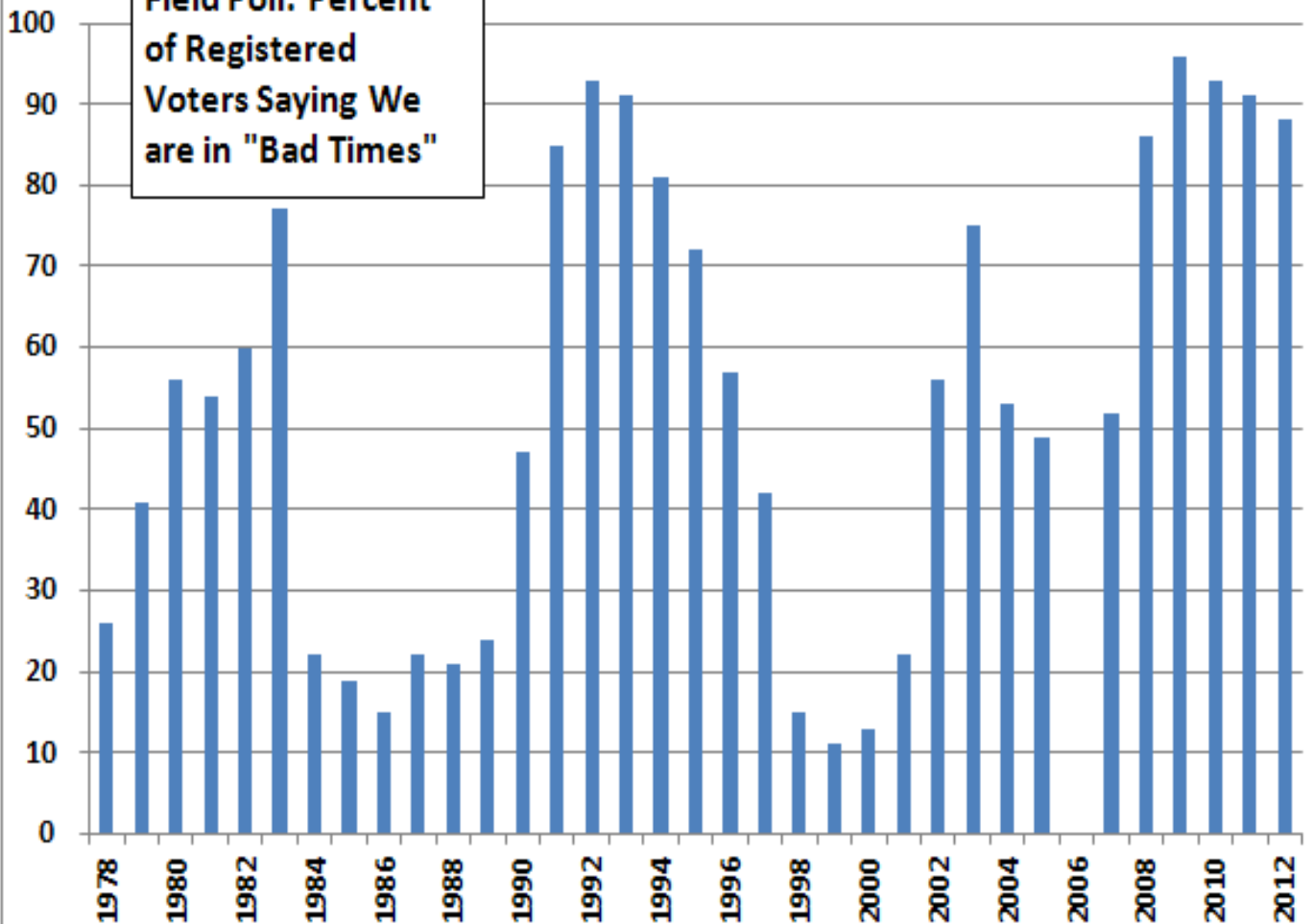
California's Economy



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California's Economy

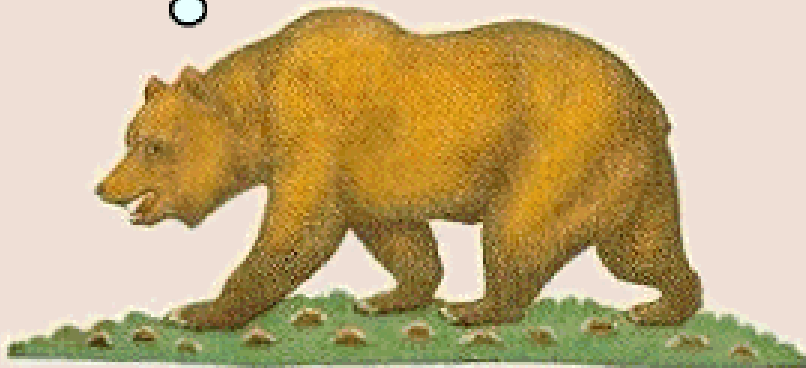
Field Poll: Percent
of Registered
Voters Saying We
are in "Bad Times"



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California's Economy

The way this
state is going, I'm glad I
became extinct.



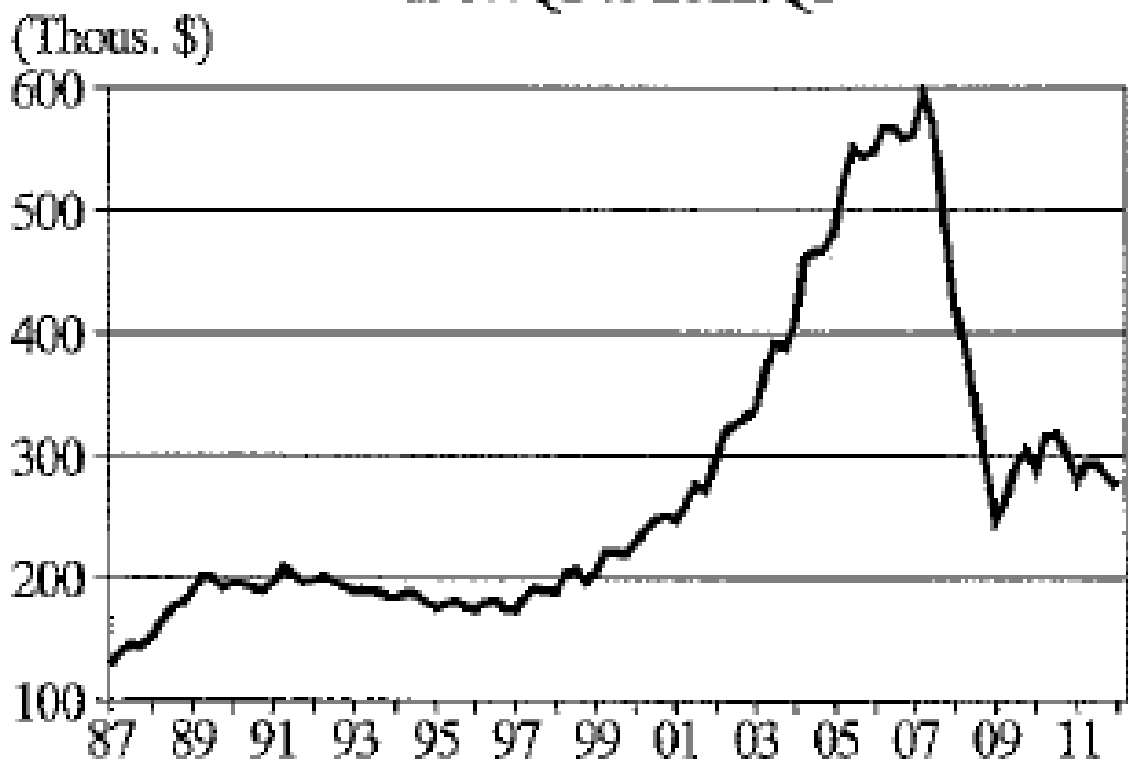
CALIFORNIA REPUBLIC



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California's Economy

California Existing-Home Prices
1987:Q1 to 2012:Q1

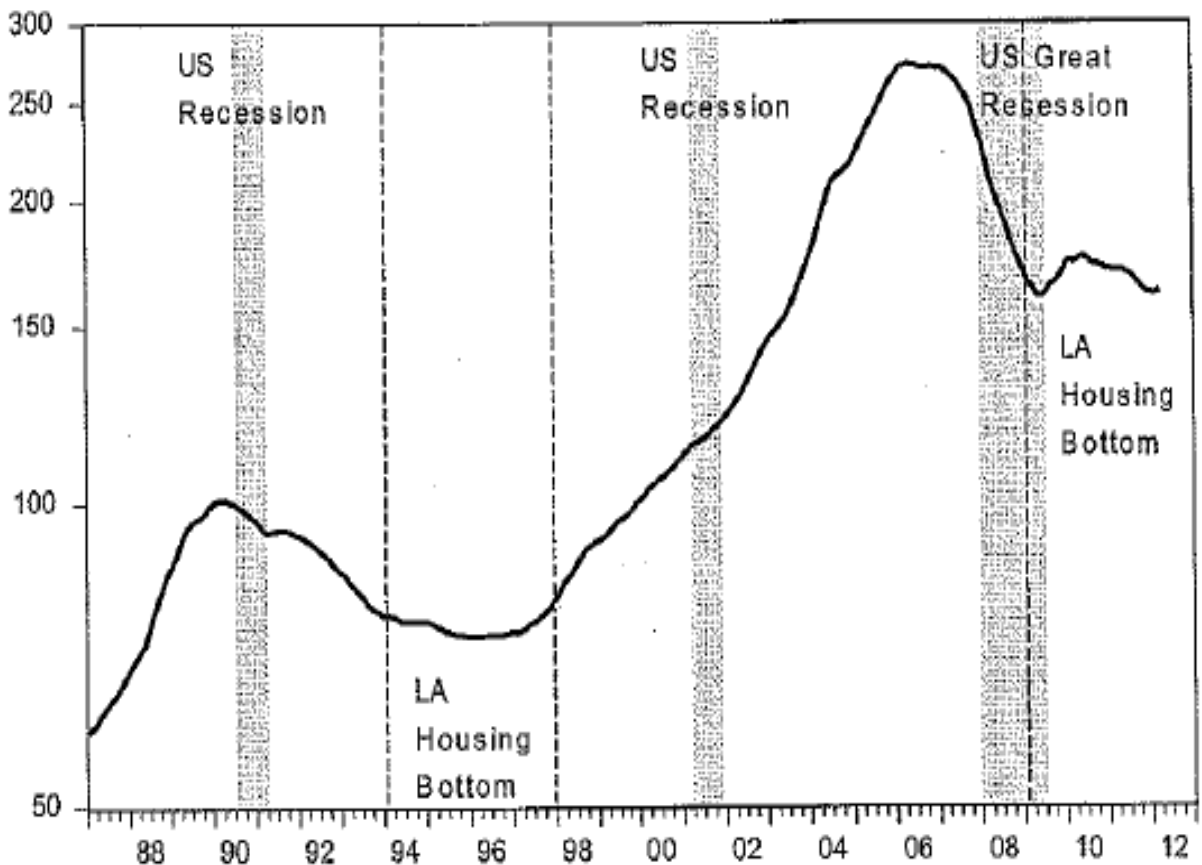


Source: California Association of Realtors

**Housing bubble bursts & produces
Great Recession esp. in California**

California's Economy

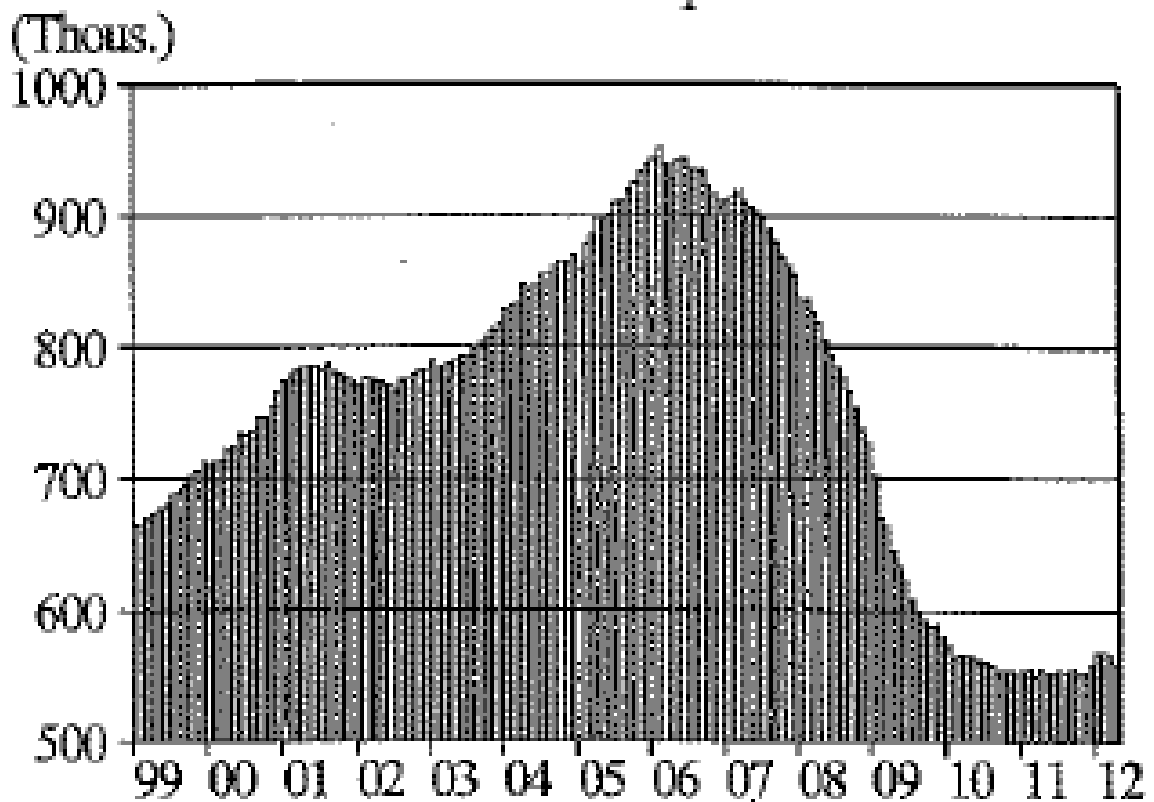
The S&P/Case-Shiller Single-Unit Home Price Index of Los Angeles from 1987 to March 2012



LA one of the hard hit areas
ISSUE: Foreclosures

California's Economy

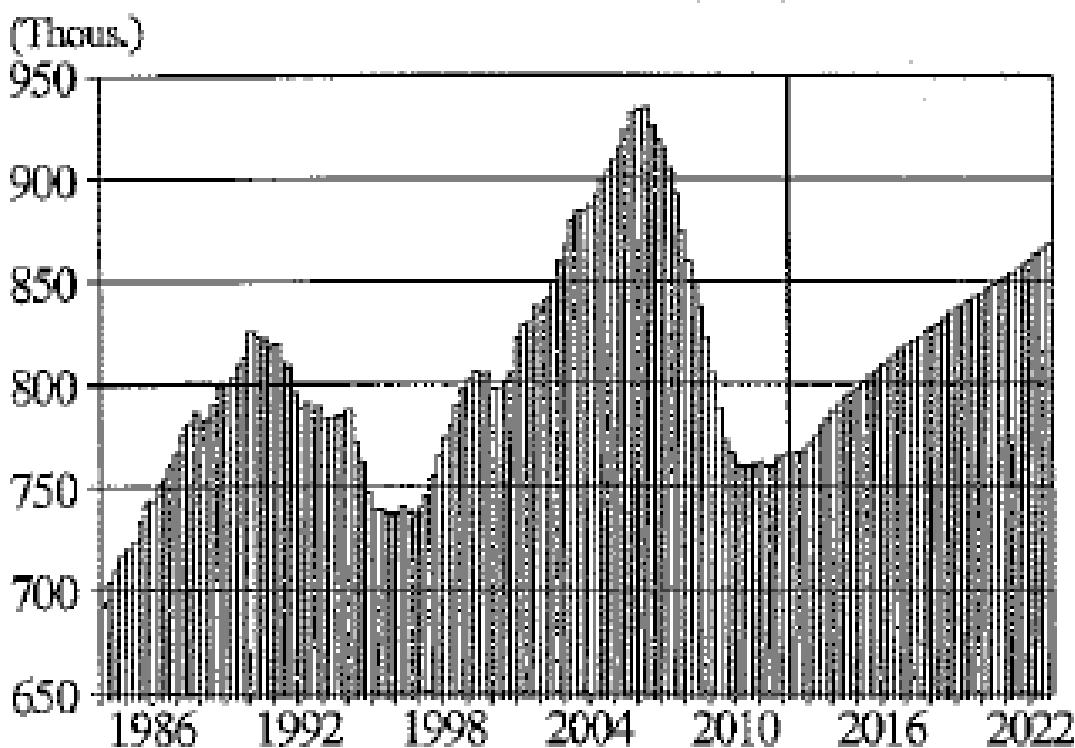
California Construction Employment
Jan. 1999 to April 2012



**Immediate impact on home
building and construction
ISSUE: Job displacement/skills**

California's Economy

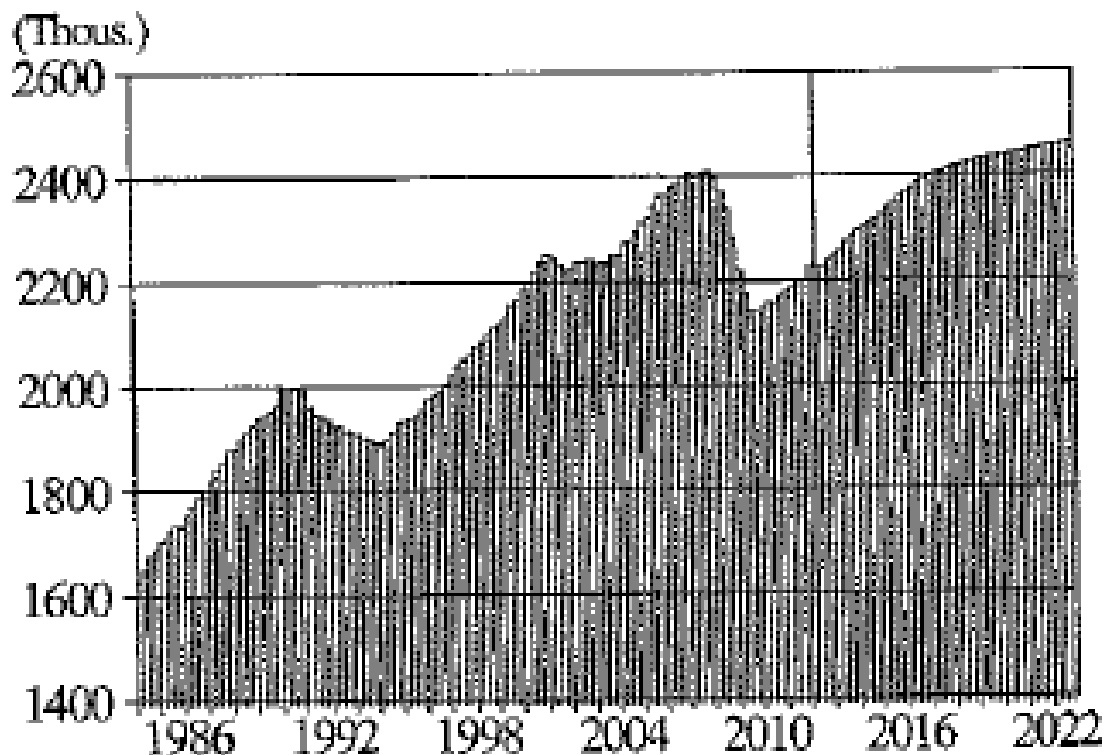
California Employment
in Financial Activities



End of flaky mortgages

California's Economy

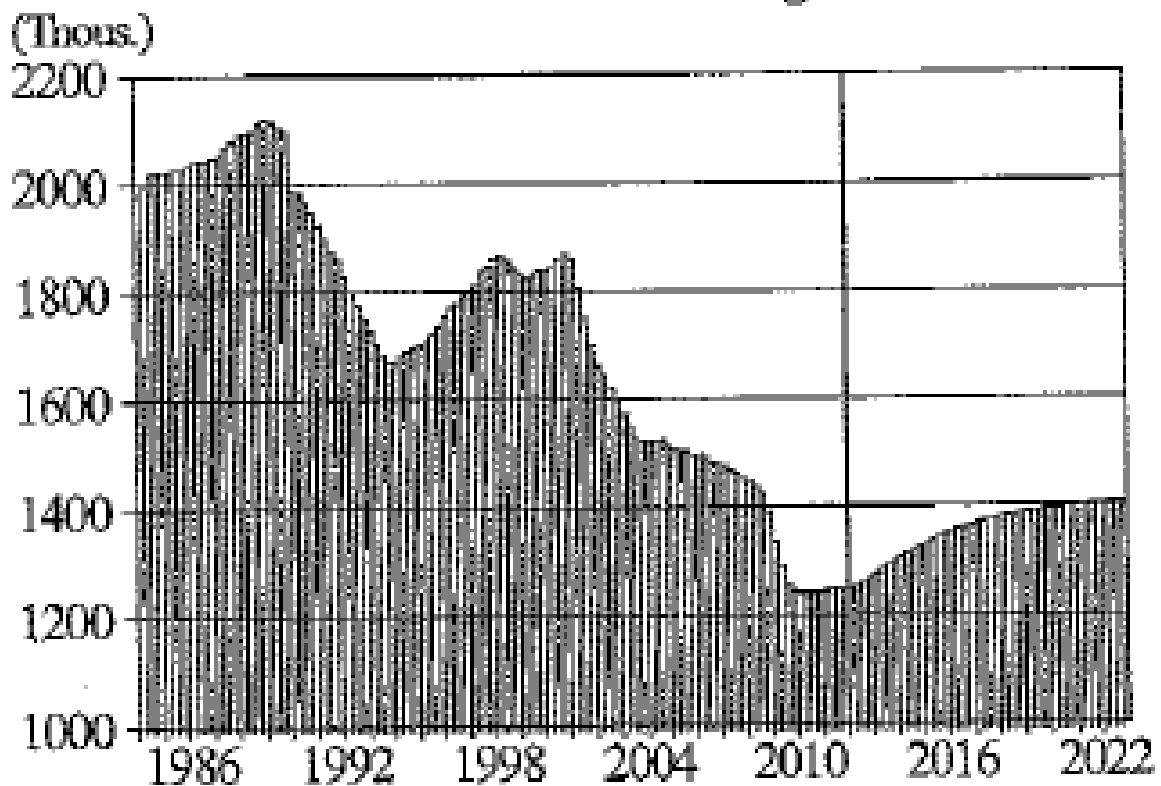
California Employment
in Trade



**Loss of household wealth reflected
in drop in retail/consumption**

California's Economy

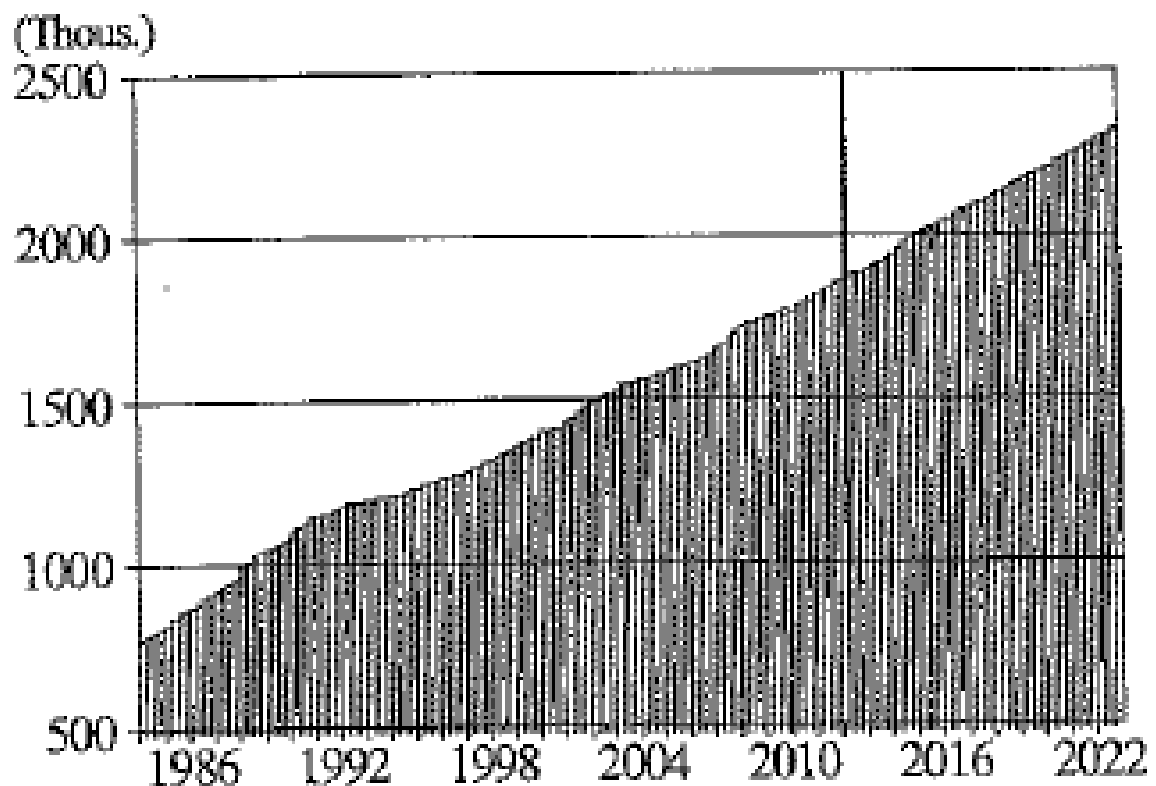
California Employment
in Manufacturing



California's large mfg. sector was not doing well even before Great Recession & is adversely affected by the international sector.

California's Economy

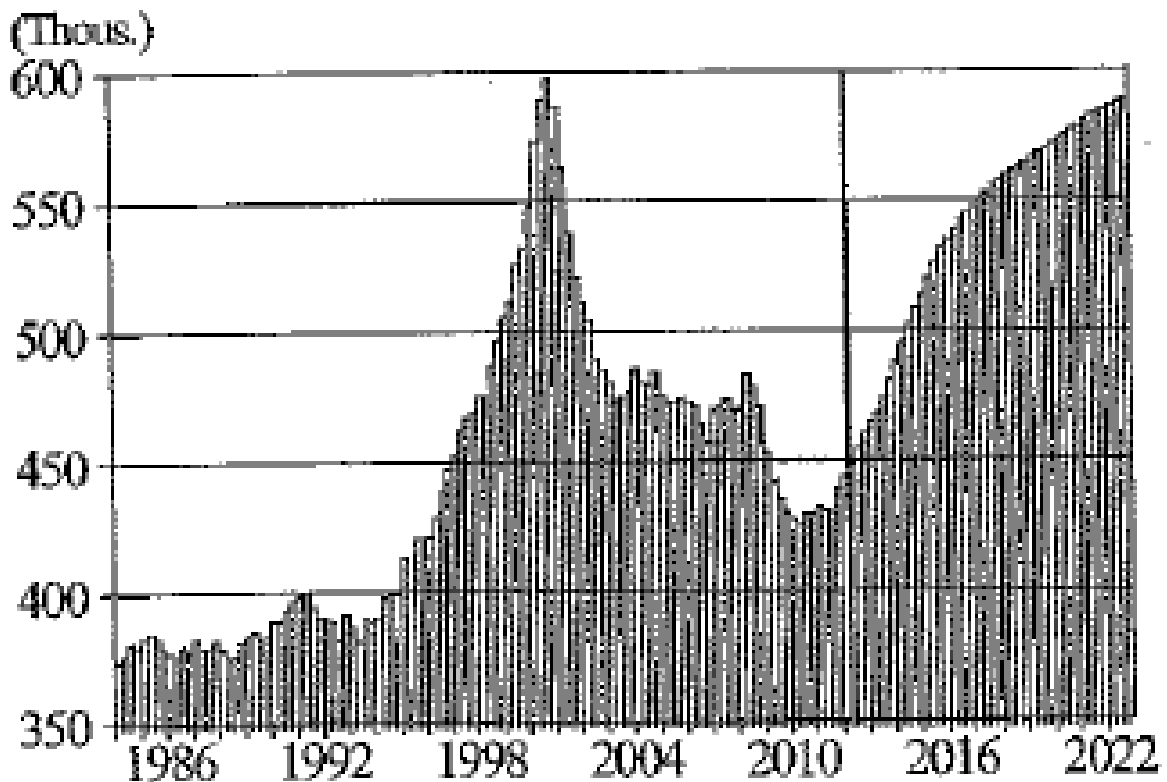
California Employment
in Education and Health Services



**Private health care & education
largely immune from business cycle.**

California's Economy

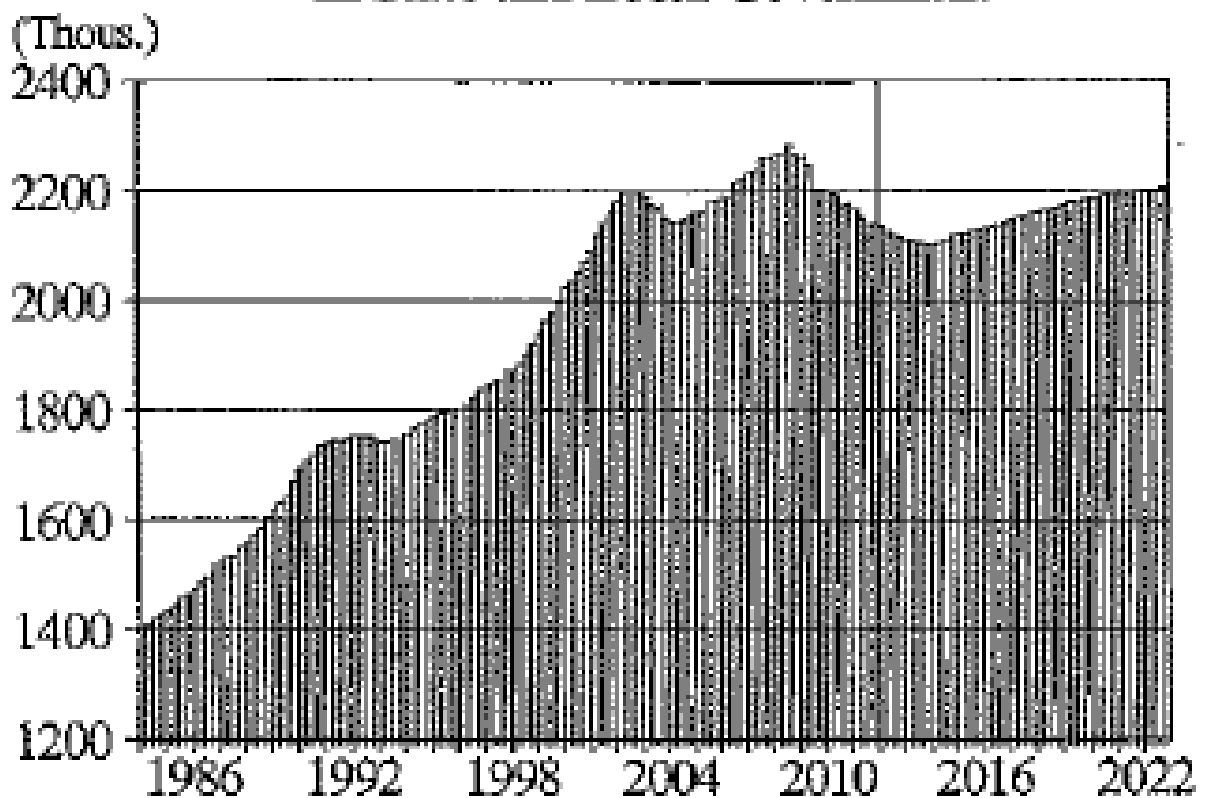
California Employment
in Information



Internet-related sectors and Hollywood are growth sectors. *Allied localities such as San Francisco & Santa Monica are doing well (unlike housing-bust cities such as San Bernadino).*

California's Economy

California Employment
in State and Local Government



**Public sector reacts to business downturns with a lag which was lengthened by federal stimulus.
Now is a drag on the economy.**



Forecasting the California Economy

UCLAAnderson
FORECAST

The Leading Independent Forecast Providing Insight to
Decision Makers in Business, Academia, and Government

50 YEARS
OF INSIGHT

UCLA Unemployment Forecast 6/12:

2012 10.6%

2013 9.7%

**We don't
get down
to 6% until
2017-18**



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50 YEARS
OF INSIGHT

*Keep in mind
that
forecasting
beyond the
short term is
uncertain &
there can be
surprises.*



A graphic with a yellow background and a black border. It features a red five-pointed star in the upper left corner. The text "California's Economy" is written in a large, black, italicized serif font. Behind the text is a brown silhouette of a mountain range, and yellow rays emanate from behind the mountains.

California's Economy

Blame Politics?
Governor?
Legislature?

A black rectangular box containing the words "Blame Game" in a bold, yellow, sans-serif font. The word "Blame" is on the top line and "Game" is on the bottom line, slightly offset to the right. Both words have a grey drop shadow.

**Blame
Game**

What about banks, deregulation?

California's Economy



Low 22% Aug. 2003

High 62% Feb. 2000

Low 22% July 2010

High 65% Aug. 2004



A graphic with a yellow background and a black border. It features a red five-pointed star in the upper left corner. The words "California's Economy" are written in a large, black, italicized serif font. Behind the text is a brown silhouette of a mountain range with yellow sun rays emanating from behind it.

California's Economy

Blame Politics?
Governor?
Legislature?

Blame
Game

Political leaders contribute to this blame game by suggesting they have more control of the state's economic fate than they have.

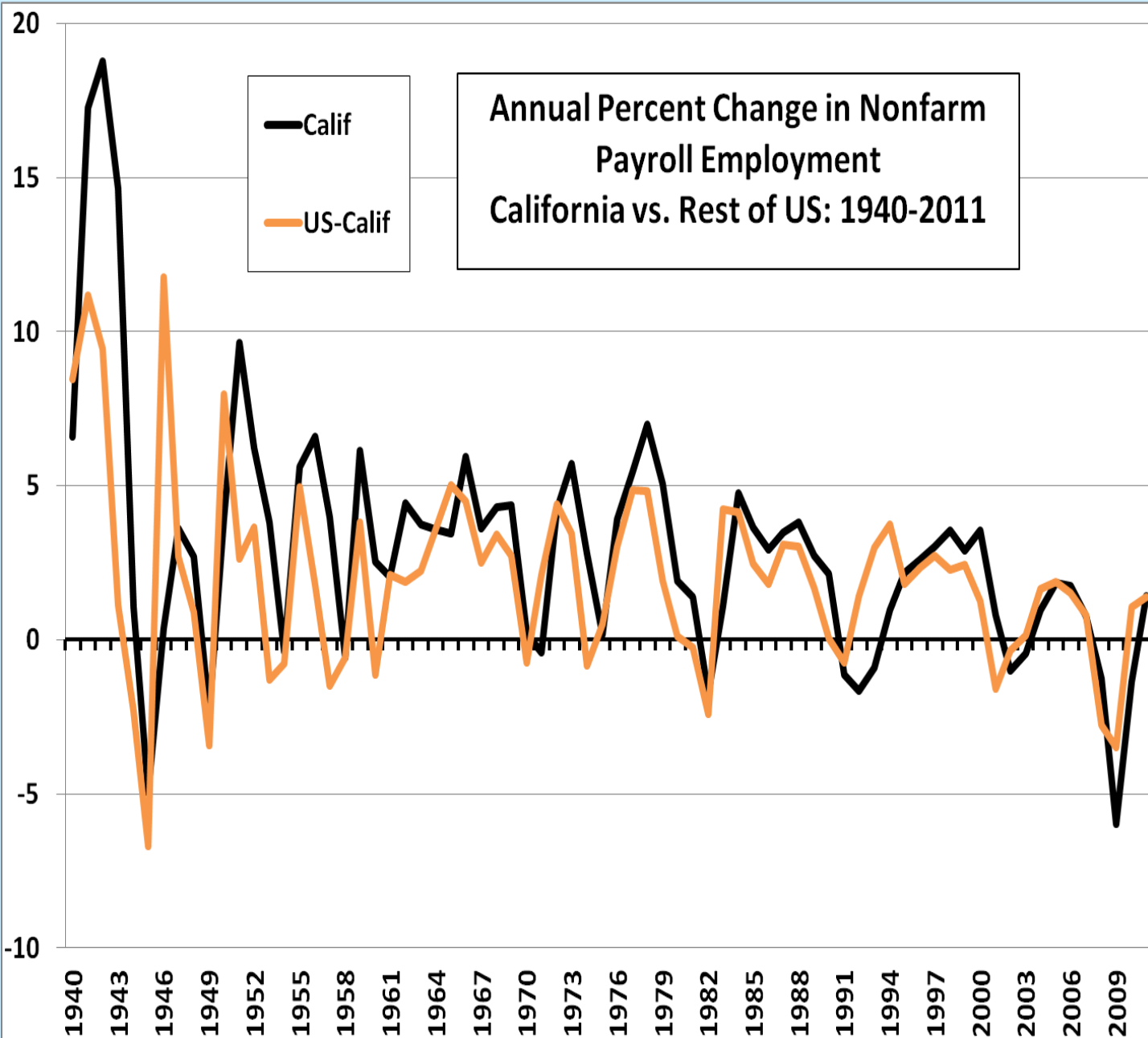
If California were a country, it would be the...

- 6th
- 7th
- 8th
- 9th largest country in the world depending on the year chosen.



What does this statement mean?

Economic Sovereignty?



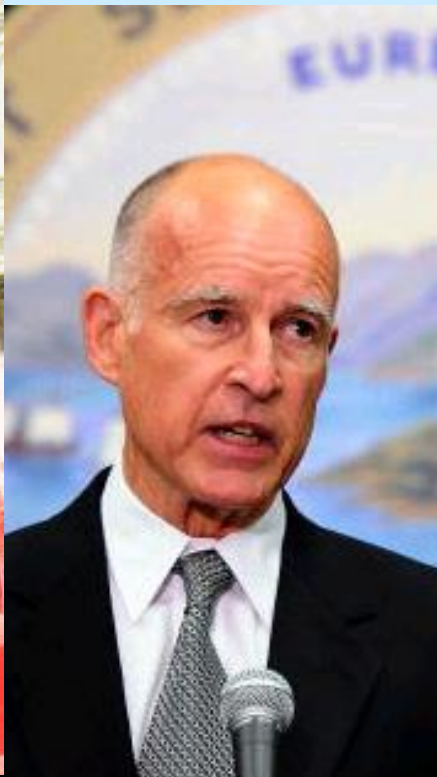
From WW2 on, the ups and downs in the California economy mirrored those in the rest of the US with adjustment for aerospace/military.

California's biggest trading partner is...



...the rest of the USA!

**Lack of
economic
sovereignty
has fiscal
implications**



California has no Federal Reserve

- **There is no
California
currency**



- **California
can't set
interest rates**
- **Its govt. can't
run big deficits
for long**

The State Budget

California STATE BUDGET 2012-13



ERHARD G. MCANULTY, GOVERNOR, STATE OF CALIFORNIA

INTRODUCTION

The 2012 Budget Act closes a \$15.7 billion budget gap and rebuilds a nearly \$1 billion reserve. It builds upon important reforms enacted last year—public safety realignment and the elimination of redevelopment agencies. It reforms welfare to refocus the program on returning individuals to work, merges the delivery of services for those who are eligible for both Medi-Cal and Medicare to reduce costs and improve services, and overhauls California's correctional system. The Budget also protects education and public safety programs, makes government more efficient and less costly, moves government closer to the people, and pays down debt.

While the state continues to face budget risks and pressures, the plan puts California on its most stable financial footing in years. Under current projections, the Budget would be balanced on an ongoing basis for the first time in over a decade. This fiscal stability will make California more attractive for business, investment, and the creation of jobs.

The Budget reinvests in schools and universities. Spending for K-14 schools increases by 14 percent—providing \$6.7 billion in additional funding, \$6.1 billion to schools and \$570 million to community colleges. The University of California and the California State University are provided increased funding in 2013-14, contingent upon the passage of The Schools and Local Public Safety Protection Act, to hold tuition level next year.

Factoids:



Employment

- There are 2.2 million state and local workers out of 14.7 payroll employees
- 1.7 million are local
- 0.5 million are state
- Close to half of state employees are in education, mainly UC and CSU (many part time)
- 55% of locals are in education

State Budget - Revenue

- Three taxes account for 94% of tax revenue going to the general fund
- Income tax 61%
- Sales tax 23%
- Corp. profits 10%
- Now you know what to say the next time someone tells you that all our budget problems would be OK if only we taxed marijuana
- The income tax is highly dependent on top earners & is very volatile

Factoids:



State Budget - Spending

- **72% of state general fund spending is a transfer to local governments**
- **42% of the general fund goes to K-14 & other local education (mainly the Prop 98 world) . Public opinion opposes cuts in education, especially K-12.**
- **5% of the general fund goes to higher ed (except community colleges); the state pays roughly 10% of the UC budget (tuition roughly matches the state)**
- **9% of general fund goes to corrections, mainly state. Public opinion always favors cuts in this spending. Courts go the other way.**
- **30% of general fund goes to health and welfare programs, mainly local**
- **5% of general fund is debt service**

Various Budget-Related Items Will Be on November Ballot

*Prop 30 - Gov. Jerry Brown's tax increase plan
(big trigger cuts if it fails) – polling marginally*

Prop 31 - State budget process changes

Prop 32 - Ban on payroll deductions for political contributions; ban on contributions to candidates from unions and corporations

Prop 33 - Auto insurance rates based on driver's history of coverage

Prop 34 - Death penalty repeal

Prop 35 - Increased penalties for human trafficking

Prop 36 - Changes in "Three Strikes" sentencing law

Prop 37 - Labeling of genetically engineered foods

*Prop 38 - Molly Munger's tax increase plan
(polling poorly)*

Prop 39 - Increased taxes on some multi-state companies to fund clean energy programs (polling poorly)

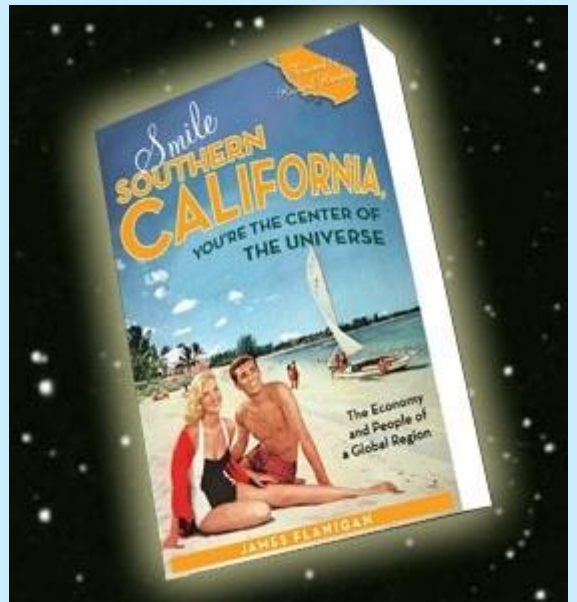
Prop 40 - Referendum on state Senate districts

What can we do?

- **Big macro issues are really national**
- **But there are important long term issues:**
 - **Budget education (forums)**
 - **K-12: Funding, delivery, assistance**
 - **Community colleges (often neglected) & other adult education**
 - **Infrastructure issues such as transportation including more efficient use of infrastructure such as road & water pricing**
 - **Local development (particularly after redevelopment termination by state)**
 - **Local implementation of state-mandated environmental standards (AB 32/SB 375)**



Discussion, Comments, Questions



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